NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Tennessee Housing Development Agency was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 *et seq*. The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

Agency operations are directed by a 19-member board of directors. The board consists of five members who serve *ex officio* (the State Treasurer, the Comptroller of the Treasury, the Commissioner of the Department of Finance and Administration, the Secretary of State, and a staff assistant to the Governor), and 14 appointed members -- 12 appointed by the Governor and one each by the Speaker of the House and the Speaker of the Senate. The board includes representatives of the housing, real estate, home-building, and mortgage-lending industries; representatives of local government and nonprofit organizations; and citizens from the public at-large.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

The Tennessee Housing Development Agency is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body, approves its budget, and provides some financial support. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

b. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The agency follows all applicable GASB pronouncements as well as applicable private-sector pronouncements issued on or before November 30, 1989. Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, and Homeownership Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

c. Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred.

d. New Accounting Standards Adopted

During the year ended June 30, 2002, the agency implemented GASB Statement No. 34, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments,” as amended by Statement No. 37 “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments: Omnibus” and implemented Statement No. 38, “Certain Financial Statement Note Disclosures.” Statement No. 34, as amended and modified, commonly referred to as the new reporting model retained much of the old reporting and disclosure requirements under the prior reporting model, with certain modifications and newly added information. The most significant effects on the agency's financial statements were the addition of Management's Discussion and Analysis as required supplementary information and the reclassification of the prior equity section, including contributed capital and retained earnings, into three categories of net assets.

e. Capital Assets

The agency records furniture and office equipment at cost and follows the straight-line method of depreciating the assets over their estimated useful lives, which are determined considering physical factors as well as obsolescence factors. Capital assets are defined by the agency as assets with an initial, individual cost of $5,000 or more.

f. Restricted Assets

Restricted assets are comprised of the Debt Service Reserve Funds. The bond resolutions require the agency to establish a Debt Service Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund to cover any deficiency.

g. Bond Issuance Costs, Refunding Costs, and Interest Accretion

1. Bond Issuance Costs: The agency amortizes bond issuance costs using the bonds outstanding method over the life of the related bond issue. Unamortized bond issuance costs are reported as deferred charges.

2. Bond and Note Refunding Costs: The agency amortizes bond and note refunding costs using the straight-line method. Bonds and notes payable are reported net of the deferred amount on refundings.

3. Interest Accretion: The difference between the face amount of deep discount bonds and the public offering price is not treated as bond discount. Deep discount bonds are subject to redemption at prices which increase from the public offering price up to the face amount. The carrying amount of these bonds is adjusted monthly to reflect the increased liability, with a corresponding charge to interest expense.

4. Mortgage Discount: Discounts on 30-year mortgage loans purchased by the agency are amortized using the straight-line method over 17 years, the estimated average life of mortgages. The amount amortized is credited to interest income.

h. Cash and Cash Equivalents

In addition to demand deposits, petty cash, and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

i. Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies; obligations guaranteed by the U.S.; public housing bonds secured by contracts with the U.S.; direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee; obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation; interest bearing time or demand deposits;

collateralized certificates of deposit in authorized state depositories; and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value.

j. Accrual of Interest Income

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

k. Mortgages

Mortgages are carried at their original amount less principal collected.

l. Operating Revenues and Expenses

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds outstanding.

m. Changes in Classifications

In conjunction with the implementation of GASB Statement No. 34, the agency determined that certain assets should be shown as restricted assets and certain liabilities should be shown as noncurrent liabilities.

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

The agency's bond resolutions and the laws of the State of Tennessee require deposits to be fully insured or collateralized. At June 30, 2002, the carrying amount of the agency's deposits was $45,129,125 and the bank balances were $45,516,142. Of the bank balances, $36,865,513 was covered by insurance or by collateral held by the agency's agent in the agency's name, and $8,650,629 was uninsured and uncollateralized. On the next day, July 1, 2002, the agency paid debt service on outstanding bonds, which reduced the bank balances well below the level of collateral. On October 2, 2002 the agency's trustee was changed to Wachovia Bank. The cash balances are swept daily into a U.S. Treasury Money Market Fund. This fund is a permitted investment under both bond resolutions.

The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was $10,678,318 on June 30, 2002. The pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the year ended June 30, 2002.

b. Investments

The agency's investments are categorized to indicate the level of custodial risk assumed by the agency at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the agency or its agent in the agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the agency's name.

The agency's bond resolutions require repurchase agreements to be fully collateralized. On October 2, 2002 the agency's trustee was changed to Wachovia Bank. The new trustee has established an account in the agency's name for the purpose of holding collateral on repurchase agreements. This method will provide for easier monitoring of collateral than has been the case in the past. Investments are categorized as follows:

June 30, 2002

	Category 1	Category 2	Category 3	Fair Value
Cash equivalents and short-term investments				
Repurchase agreements	**$ 167,807,894**		**$ 1,192,106**	**$ 169,000,000**
U S government securities	**69,084,050**		**0**	**69,084,050**
Total cash equivalents and short-term investments	**$ 236,891,944**		**$ 1,192,106**	**$ 238,084,050**
Long-term investments				
U S government securities	**$ 484,635,489**			**$ 484,635,489**
State & local government securities	**902,432**			**902,432**
Total long-term investments	**$ 485,537,921**			**$ 485,537,921**
Unsettled Investment Acquisitions				
U S government securities				**1,982,042**
Total				**$ 725,604,013**

Of the above repurchase agreements, $21,898,638 was previously reported as Category 3. However, subsequent to the issuance of the financial statements, it was discovered that additional collateral was held by the trustee at June 30, 2002; therefore, $20,706,532 of this amount is now reported in Category 1.

NOTE 3. CHECKS PAYABLE

This amount represents the sum of checks written in excess of the agency's checking account balance because of the agency's use of a controlled disbursement account. Through the use of a controlled disbursement account, the agency maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily.

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

The following tables are a summary of the bond activity for the year ended June 30, 2002.

BONDS ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Beginning Balance 6/30/2001	Additions	Reductions	Ending Balance 6/30/2002
MORTGAGE FINANCE PROGRAM BONDS							
1993A	1/1/99-7/1/2028	$265,910	4.70 to 5.95	$234,920	$ -0-	$17,005	$217,915
1994A	1/1/96-7/1/2025	60,000	4.40 to 6.90	36,620	-0-	3,760	32,860
1994B	7/1/96-7/1/2025	100,000	4.50 to 6.60	62,805	-0-	6,495	56,310
1995A	1/1/97-7/1/2026	80,000	5.45 to 7.125	48,230	-0-	5,060	43,170
1995B/C	1/1/97-7/1/2026	100,000	4.80 to 6.55	67,025	-0-	6,620	60,405
Total Mortgage Finance Program Bonds		$605,910		$449,600	$ -0-	$38,940	$410,660
Less: Deferred Amount on Refundings				(575)	-0-	(28)	(547)
Net Mortgage Finance Program Bonds				$449,025	$ -0-	$38,912	$410,113
HOMEOWNERSHIP PROGRAM BONDS							
Issue G	7/1/89-7/1/2006	$ 24,845	5.25 to 7.65	$ 5	$ -0-	$ -0-	$ 5
Issue K	7/1/92-7/1/2021	74,775	6.4 to 8.125	1	-0-	-0-	1
			Interest accretion	2	-0-	-0-	2
Issue MN	7/1/91-7/1/2020	85,740	6.7 to 7.65	25,345	-0-	25,345	-0-
Issue O	7/1/91-7/1/2020	84,000	6.4 to 7.50	480	-0-	480	-0-
Issue P	7/1/97-7/1/2016	40,000	6.85 to 7.70	7,851	-0-	7,851	-0-
			Interest accretion	9,767	-0-	9,767	-0-
Issue ST	7/1/92-7/1/2025	150,975	5.00 to 7.625	48,700	-0-	48,700	-0-
Issue UV	7/1/92-7/1/2022	75,000	5.30 to 7.65	22,250	-0-	22,250	-0-
Issue WR	7/1/94-7/1/2017	49,900	4.25 to 6.80	36,250	-0-	7,750	28,500
Issue Y1/Z1	1/1/95-7/1/2024	50,000	3.50 to 6.10	29,170	-0-	6,530	22,640
Issue Y2/Z2	1/1/95-7/1/2024	30,000	3.50 to 5.75	18,370	-0-	2580	15,790
1995-1	1/1/97-7/1/2026	65,000	4.35 to 6.48	26,855	-0-	1,935	24,920
1996-1	7/1/97-1/1/2026	40,000	4.00 to 5.85	33,375	-0-	2,670	30,705
1996-2	1/1/98-7/1/2027	65,000	4.40 to 6.375	56,240	-0-	4,610	51,630
1996-3	7/1/99-7/1/2028	65,000	4.30 to 6.00	41,615	-0-	2,955	38,660
1996-4	7/1/98-7/1/2027	55,000	4.35 to 6.45	51,230	-0-	5,090	46,140
1996-5	7/1/99-7/1/2028	60,000	3.85 to 5.75	57,945	-0-	3,880	54,065
1997-1	7/1/99-7/1/2028	57,885	4.00 to 5.40	55,860	-0-	3,695	52,165
1997-2	7/1/2000-7/1/2029	50,000	3.20 to 5.20	49,315	-0-	2,370	46,945
1997-3	1/1/98-7/1/2017	88,008	4.00 to 5.85	63,793	-0-	3,063	60,730
			Interest accretion	13,942	4,111	665	17,388
1998-1	7/1/2001-7/1/2030	50,000	3.95 to 5.40	49,575	-0-	2,665	46,910
1998-2	7/1/2000-7/1/2029	30,000	4.00 to 5.375	29,350	-0-	1,790	27,560
1998-3	7/1/2000-7/1/2031	80,000	3.70 to 6.15	78,910	-0-	5,430	73,480
1999-1	7/1/2001–7/1/2031	41,000	3.95 to 6.25	40,695	-0-	3,105	37,590
1999-2	7/1/2001-7/1/2031	150,000	4.25 to 5.70	99,730	-0-	7,125	92,605
1999-3	7/1/2001–7/1/2031	110,000	4.30 to 6.15	109,750	-0-	6,905	102,845
2000-1	7/1/2001–7/1/2031	105,000	4.60 to 6.40	104,965	-0-	3,560	101,405
2000-2	7/1/2001–7/1/2031	110,000	5.00 to 7.93	110,000	-0-	1,410	108,590
2001-1	7/1/2001-7/1/2032	135,390	3.41 to 5.65	135,390	-0-	8,280	127,110
2001-2	1/1/2003–7/1/2032	60,000	3.10 to 5.375	-0-	60,000	-0-	60,000
2001-3	1/1/2003–7/1/2032	64,580	2.85 to 5.45	-0-	64,580	-0-	64,580
2002-1	7/1/2003–7/1/2033	85,000	1.85 to 5.45	-0-	85,000	-0-	85,000
Total Homeownership Program Bonds		$2,232,098		$1,406,726	$213,691	$202,456	$1,417,961
Less: Deferred Amount on Refundings				(5,256)	(3,134)	(710)	(7,680)
Net Homeownership Program Bonds				1,401,470	210,557	201,746	1,410,281
Net Total All Issues				$1,850,495	$210,557	$240,658	$1,820,394

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2002 are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2003	$ 105,625	$ 96,155	$ 201,780
2004	44,127	93,052	137,179
2005	49,700	92,496	142,196
2006	55,047	92,012	147,059
2007	57,221	89,976	147,197
2008 – 2012	214,663	400,288	614,951
2013 – 2017	226,402	370,100	596,502
2018 – 2022	310,146	266,131	576,277
2023 – 2027	330,105	174,288	504,393
2028 – 2032	370,370	79,707	450,077
2033 – 2034	47,825	1,518	49,343
Total	$1,811,231	$1,755,723	$3,566,954

The debt principal in the preceding table is $9.163 million less than that presented in the accompanying financial statements. Of this amount, $17.390 million represents the accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported as bond principal in the financial statements; it has been reported above as interest in those years (2003-2017) in which the bonds mature. In addition, $8.227 million, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

c. Redemption of Bonds and Notes

During the year ended June 30, 2002, bonds were retired at par before maturity in the Mortgage Finance Program Bonds in the amount of $2,455,000 and in the Homeownership Program Bonds in the amount of $20,757,557. The respective carrying values of these bonds were $2,435,076 and $20,619,635. This resulted in an expense to the Mortgage Finance Program of $19,924 and the Homeownership Program of $137,922.

On July 1, 2001, the agency used $127,541,965 of Homeownership Program Bonds, Issue 2001-1 A, B, C, and D to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $117,171,965 early redemption and $10,370,000 current maturities). The carrying amount of these bonds was $126,587,522. A call premium of $1,929,039 was paid on the redemption of these bonds. The refunding resulted in a difference of $2,883,482 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2032. The refunding decreased the agency's debt service by $5,258,147 over the next 31 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $18,485,796.

Also on July 1, 2001, the agency used $8,980,000 of Single Family Mortgage Program Notes, 2000CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $900,000 early redemption and $8,080,000 current maturities). The carrying amount of these bonds was $8,973,222. The refunding resulted in a difference of $6,778 between the reacquisition price and the net carrying amount of the old debt. This difference is charged to operations in the current and following year. Because short-term notes were used to refund long-term bonds, neither the change in debt service nor the economic gain disclosures are appropriate.

On August 30, 2001, the agency issued $60,000,000 in Homeownership Program Bonds, Issue 2001-2 A and B. On October 1, 2001, the agency used $33,740,000 of these bonds to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of these bonds was $33,489,296. The refunding resulted in a difference of $250,704 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2031. The refunding decreased the agency's debt service by $6,876,459 over the next 31 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $5,094,957.

On December 13, 2001, the agency issued $64,580,000 in Homeownership Program Bonds, Issue 2001-3 A & B to partially refund short-term convertible drawdown notes 2000CN-1, which was used on January 2, 2001 and on March 13, 2001 to refund certain bonds and notes previously issued in the Mortgage Finance Program and the Homeownership Program. Because long-term bonds were used to refund short-term notes, neither the change in debt service nor the economic gain disclosures are appropriate.

Also on December 13, 2001, the agency issued $200,000,000 of short-term convertible drawdown notes, 2001CN-1. The initial drawdown amount was $52,580,000. Of this amount, $20,285,000 was used to refund at maturity the 2000CN-1 draw down notes on December 15, 2001. The remaining $32,295,000 was used on January 2, 2002 to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $23,660,000 early redemption and $8,635,000 current maturities). The carrying amount of these bonds was $32,142,210. The refunding resulted in a difference of $152,790 between the reacquisition price and the net carrying amount of the old debt. This difference is charged to operations in the current and following year. Because short-term notes were used to refund long-term bonds, neither the change in debt service nor the economic gain disclosures are appropriate.

On April 18, 2002, the agency issued $85,000,000 in Homeownership Program Bonds, Issue 2002-1 A and B. On June 13, 2002, the agency used $42,055,000 of these bonds to partially refund the convertible drawdown notes, 2001CN-1, which was used on December 13, 2001 and January 2, 2002 to refund certain bonds and notes previously issued in the Mortgage Finance Program, the Homeownership Program, and the Single Family Mortgage Note Program. Because long-term bonds were used to refund short-term notes, neither the change in debt service nor the economic gain disclosures are appropriate.

On June 13, 2002, the agency drew down $57,460,000 of the convertible drawdown notes 2001CN-1. These proceeds will be used on July 1, 2002 to refund bonds previously issued in the Mortgage Finance Program in the amount of $21,145,000 and the Homeownership Program in the amount of $36,315,000.

Details of the bond retirements by issue are as follows:

Year Ended June 30, 2002

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	Expense	Deferred Amount	Source of Funds
MORTGAGE FINANCE PROGRAM BONDS							
07/01/2001	94A	$ 590,000	$ 587,252			($ 2,748)	Current Refunding
07/01/2001	94B	1,150,000	1,142,163			(7,837)	Current Refunding
07/01/2001	95A	1,215,000	1,204,447			(10,553)	Current Refunding
07/01/2001	95BC	740,000	733,909		($ 6,091)		Prepayments
07/01/2001	95BC	1,015,000	1,006,646			(8,354)	Current Refunding
10/01/2001	94A	1,500,000	1,493,124			(6,876)	Current Refunding
10/01/2001	94B	2,725,000	2,706,804			(18,196)	Current Refunding

Year Ended June 30, 2002 (cont.)

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	Expense	Deferred Amount	Source of Funds
MORTGAGE FINANCE PROGRAM BONDS (cont.)							
10/01/2001	95A	1,980,000	1,963,143			(16,857)	Current Refunding
10/01/2001	95C	980,000	972,090			(7,910)	Current Refunding
10/01/2001	95C	1,555,000	1,542,449		(12,551)		Prepayments
01/02/2002	93A	4,990,000	4,970,404			(19,596)	Current Refunding
01/02/2002	94A	715,000	711,728			(3,272)	Current Refunding
01/02/2002	94B	990,000	983,434			(6,566)	Current Refunding
01/02/2002	95A	785,000	778,375			(6,625)	Current Refunding
01/02/2002	95BC	590,000	585,273			(4,727)	Current Refunding
01/02/2002	95BC	160,000	158,718		(1,282)		Prepayments
	Sub-Total-	$ 21,680,000	$21,539,959	$-0-	($19,924)	($ 120,117)	
HOMEOWNERSHIP PROGRAM BONDS							
07/01/2001	89MN	$ 25,345,000	$ 25,092,814	$ 253,450		($ 505,636)	Current Refunding
07/01/2001	89O	5,000	4,056	50		(994)	Current Refunding
07/01/2001	90P	16,081,965	16,036,893	321,639		(366,711)	Current Refunding
07/01/2001	90ST	46,335,000	45,921,999	931,200		(1,344,201)	Current Refunding
07/01/2001	91UV	21,135,000	20,957,990	422,700		(599,710)	Current Refunding
07/01/2001	92Y1Z1	610,000	605,408			(4,592)	Current Refunding
07/01/2001	92Y2Z2	290,000	287,814			(2,186)	Current Refunding
07/01/2001	96-1	380,000	377,708		($ 2,292)		Prepayments
07/01/2001	96-2	60,000	59,582		(418)		Prepayments
07/01/2001	96-3	955,000	946,907			(8,093)	Current Refunding
07/01/2001	96-4	1,360,000	1,347,510			(12,490)	Current Refunding
07/01/2001	96-5	625,000	618,651			(6,349)	Current Refunding
07/01/2001	97-3	292,315	290,814		(1,501)		Prepayments
07/01/2001	99-1	120,000	118,971			(1,029)	Current Refunding
07/01/2001	99-2	550,000	546,929			(3,071)	Current Refunding
07/01/2001	99-3	690,000	684,294			(5,706)	Current Refunding
07/01/2001	2000-2	95,000	94,633		(367)		Prepayments
10/01/2001	91WX	4,000,000	3,963,779			(36,221)	Current Refunding
10/01/2001	91WX	1,515,000	1,501,281		(13,719)		Prepayments
10/01/2001	92Y1Z1	4,565,000	4,531,282			(33,718)	Current Refunding
10/01/2001	92Y1Z1	330,000	327,563		(2,437)		Prepayments
10/01/2001	92Y2Z2	655,000	650,145			(4,855)	Current Refunding
10/01/2001	92Y2Z2	205,000	203,481		(1,519)		Prepayments
10/01/2001	95-1	875,000	872,752			(2,248)	Current Refunding
10/01/2001	96-1	600,000	596,443			(3,557)	Current Refunding
10/01/2001	96-1	620,000	616,325		(3,675)		Prepayments
10/01/2001	96-2	1,435,000	1,425,174			(9,826)	Current Refunding
10/01/2001	96-2	1,100,000	1,092,468		(7,532)		Prepayments
10/01/2001	96-3	740,000	733,820			(6,180)	Current Refunding
10/01/2001	96-4	1,435,000	1,422,185			(12,815)	Current Refunding
10/01/2001	96-4	420,000	416,249		(3,751)		Prepayments
10/01/2001	96-5	1,555,000	1,539,435			(15,565)	Current Refunding
10/01/2001	97-1	1,440,000	1,427,754			(12,246)	Current Refunding
10/01/2001	97-1	380,000	376,769		(3,231)		Prepayments
10/01/2001	97-2	545,000	541,844			(3,156)	Current Refunding
10/01/2001	97-2	315,000	313,176		(1,824)		Prepayments
10/01/2001	98-1	1,040,000	1,030,656			(9,344)	Current Refunding
10/01/2001	98-1	345,000	341,900		(3,100)		Prepayments
10/01/2001	98-2	535,000	530,143			(4,857)	Current Refunding
10/01/2001	98-2	100,000	99,092		(908)		Prepayments
10/01/2001	98-3	1,305,000	1,298,475			(6,525)	Current Refunding
10/01/2001	98-3	990,000	985,050		(4,950)		Prepayments
10/01/2001	99-1	215,000	213,308			(1,692)	Current Refunding
10/01/2001	99-1	290,000	287,674		(2,326)		Prepayments
10/01/2001	99-2	1,895,000	1,884,559			(10,441)	Current Refunding
10/01/2001	99-2	1,010,000	1,004,435		(5,565)		Prepayments
10/01/2001	99-3	2,115,000	2,097,743			(17,257)	Current Refunding
10/01/2001	99-3	525,000	520,716		(4,284)		Prepayments
10/01/2001	2000-1	1,605,000	1,594,638			(10,362)	Current Refunding
10/01/2001	2000-1	175,000	173,870		(1,130)		Prepayments

Year Ended June 30, 2002 (cont.)

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	Expense	Deferred Amount	Source of Funds
HOMEOWNERSHIP PROGRAM BONDS (cont.)							
10/01/2001	2000-2	165,000	164,105		(895)		Prepayments
01/02/2002	91WX	1,155,000	1,144,829		(10,171)		Prepayments
01/02/2002	92Y1Z1	300,000	297,806			(2,194)	Current Refunding
01/02/2002	92Y2Z2	1,110,000	1,101,835			(8,165)	Current Refunding
01/02/2002	95-1	555,000	553,584			(1,416)	Current Refunding
01/02/2002	95-1	40,000	39,898		(102)		Prepayments
01/02/2002	96-1	175,000	173,970			(1,030)	Current Refunding
01/02/2002	96-1	195,000	193,852		(1,148)		Prepayments
01/02/2002	96-2	570,000	566,125			(3,875)	Current Refunding
01/02/2002	96-2	440,000	437,008		(2,992)		Prepayments
01/02/2002	96-3	645,000	639,651			(5,349)	Current Refunding
01/02/2002	96-4	965,000	956,442			(8,558)	Current Refunding
01/02/2002	96-4	60,000	59,468		(532)		Prepayments
01/02/2002	96-5	715,000	707,882			(7,118)	Current Refunding
01/02/2002	97-1	905,000	897,353			(7,647)	Current Refunding
01/02/2002	97-2	395,000	392,747			(2,253)	Current Refunding
01/02/2002	97-2	250,000	248,574		(1,426)		Prepayments
01/02/2002	97-3	1,440,242	1,433,227		(7,015)		Prepayments
01/02/2002	98-1	490,000	485,661			(4,339)	Current Refunding
01/02/2002	98-1	380,000	376,635		(3,365)		Prepayments
01/02/2002	98-2	490,000	485,617			(4,383)	Current Refunding
01/02/2002	98-2	185,000	183,345		(1,655)		Prepayments
01/02/2002	98-3	1,135,000	1,129,361			(5,639)	Current Refunding
01/02/2002	98-3	1,075,000	1,069,659		(5,341)		Prepayments
01/02/2002	99-1	1,800,000	1,785,567			(14,433)	Current Refunding
01/02/2002	99-1	375,000	372,038		(2,962)		Prepayments
01/02/2002	99-2	2,285,000	2,272,578			(12,422)	Current Refunding
01/02/2002	99-2	695,000	691,222		(3,778)		Prepayments
01/02/2002	99-3	2,215,000	2,197,170			(17,830)	Current Refunding
01/02/2002	99-3	605,000	600,130		(4,870)		Prepayments
01/02/2002	2000-1	840,000	834,647			(5,353)	Current Refunding
01/02/2002	2000-1	295,000	293,120		(1,880)		Prepayments
01/02/2002	2000-2	585,000	581,886		(3,114)		Prepayments
01/02/2002	2001-1	3,670,000	3,647,853		(22,147)		Prepayments
	Sub-Total	$177,004,522	$175,622,002	$1,929,039	($137,922)	($3,173,637)	
	Total	$198,684,522	$197,161,961	$1,929,039	($157,846)	($3,293,754)	

Under the bond resolutions, the agency has the option to redeem bonds at an initial price of 103 percent and subsequently at prices declining to par. Generally, the redemption option cannot be exercised prior to the time the bonds have been outstanding for ten years. Certain special redemption options, as governed by the bond resolutions, are permitted prior to that time.

The bonds are secured, as described in the applicable bond resolutions, by the revenues, monies, investments, mortgage loans and other assets in the funds and accounts established by the resolutions.

d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2002.

Long-term Liabilities
(Thousands)

	Beginning Balance July 1, 2001	Additions	Reductions	Ending Balance June 30, 2002
Bonds Payable	$1,694,020	$213,691	$185,400	$1,722,311
Less: Deferred Amount on Refundings	(5,831)	(3,134)	(738)	(8,227)
Compensated Absences	225	206	164	267
Escrow Deposits	14,250	2,358	2,554	14,054
Arbitrage Rebate Payable	6,587	1,289	3,941	3,935
Deferred Revenue	857	4,067	4,204	720
Total	$1,710,108	$218,477	$195,525	$1,733,060

e. Notes Issued and Outstanding

The Single Family Mortgage Notes Trust Indenture, dated December 1, 1997 (the "Trust Indenture"), provides for the issuance of agency drawdown notes with a maximum aggregate principal amount of $65,000,000. On April 1, 1999 the Trust Indenture was supplemented providing for the maximum aggregate principal amount to be $200,000,000.

The notes bear interest, payable on the second Thursday of each succeeding month with respect to the principal amount drawn down by the agency. The interest rate is equal to ninety percent (90%) of the bond equivalent yield as determined on the related rate date.

The following table is a summary of the note activity for the year ended June 30, 2002.

NOTES ISSUED AND OUTSTANDING
(Thousands)

Series	Maturity	Stated Principal	Interest Rate (Percent)	Beginning Balance 7/01/2001	Additions	Reductions	Ending Balance 6/30/2002
SINGLE FAMILY MORTGAGE NOTES							
2000CN-1	12/13/2001	$200,000	5.307	$84,865	$ -0-	$84,865	$ -0-
2001CN-1	12/12/2002	200,000	1.608	-0-	110,040	42,055	67,985
Total Single Family Mortgage Notes				$84,865	$110,040	$126,920	$67,985
Less: Deferred Amount on Refundings				-0-	(159)	(83)	(76)
Net Single Family Mortgage Notes				$84,865	$109,881	$126,837	$67,909

NOTE 5. RESTRICTED NET ASSETS

The amount shown on the Statement of Net Assets as Restricted for single family bond programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net assets that are restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of these net assets is restricted under legislation enacted in fiscal year 1986.

NOTE 6. DEFINED BENEFIT PENSION PLAN

The agency contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37*, Tennessee Code Annotated,* establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230 or by calling (615) 741-8202.

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 6.18% of annual covered payroll. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees. The agency's contributions to TCRS for the years ended June 30, 2002, 2001, and 2000, were \$353,618, \$313,976, and \$241,470. Those contributions met the required contributions for each year.

NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

Most mortgage loans are insured by the Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's Board of Directors has designated \$750,000 of unrestricted net assets as a provision for possible loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional \$232,000 was designated to provide for losses on loans not specifically covered under one of the above programs, and \$500,000 has been designated for self-insurance of second mortgages.

NOTE 8. RISK MANAGEMENT

a. Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

b. Claims Award Fund

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The agency participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation. Since the agency participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

c. Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee provides and administers a group health insurance program which provides post-employment health insurance benefits to eligible agency retirees. The agency assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report.*

NOTE 10. PAYMENTS TO PRIMARY GOVERNMENT

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, $15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, $43,000,000 was transferred from the agency to the State General Fund. The $43,000,000 transferred from the agency came from the following resources of the agency: (i) $15,459,157 from tax revenues previously directed to the Housing Program Fund; (ii) $5,028,761 from the Housing Program Reserve Fund; and (iii) $22,512,082 from the Assets Fund.

During the current fiscal year, a transfer from the agency to the primary government in the amount of $35,367,449 was authorized under Chapter 825, Public Acts of 2002 and Section 9(2) of Chapter 827, Public Acts of 2002, for the sole purpose of meeting the requirements of funding the operations of the primary government for the fiscal year ending June 30, 2002.

NOTE 11. SUBSEQUENT EVENTS

a. Mortgage prepayments, foreclosure proceeds, and bond proceeds were used to call bonds as indicated below:

July 1, 2002	Mortgage Finance Program	$14,290,000
	Homeownership Program	50,960,909
	Total	$65,250,909

b. Homeownership Program Bonds, Issue 2002-2, were sold on July 31, 2002. The bond maturities are as follows:

BONDS ISSUED
(Thousands)

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2002-2	1/1/2004-7/1/2033	$85,000	2.25 to 5.40
TOTAL ALL ISSUES		$85,000	